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BUSINESS INF. BUR.
CORPORATION FILE

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CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
SUPPLEMENTARY CORPORATION FILE

~~CLEVELAND PUBLIC LIBRARY
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CORPORATION FILE~~

CITY STORES COMPANY
and

SUBSIDIARY COMPANIES

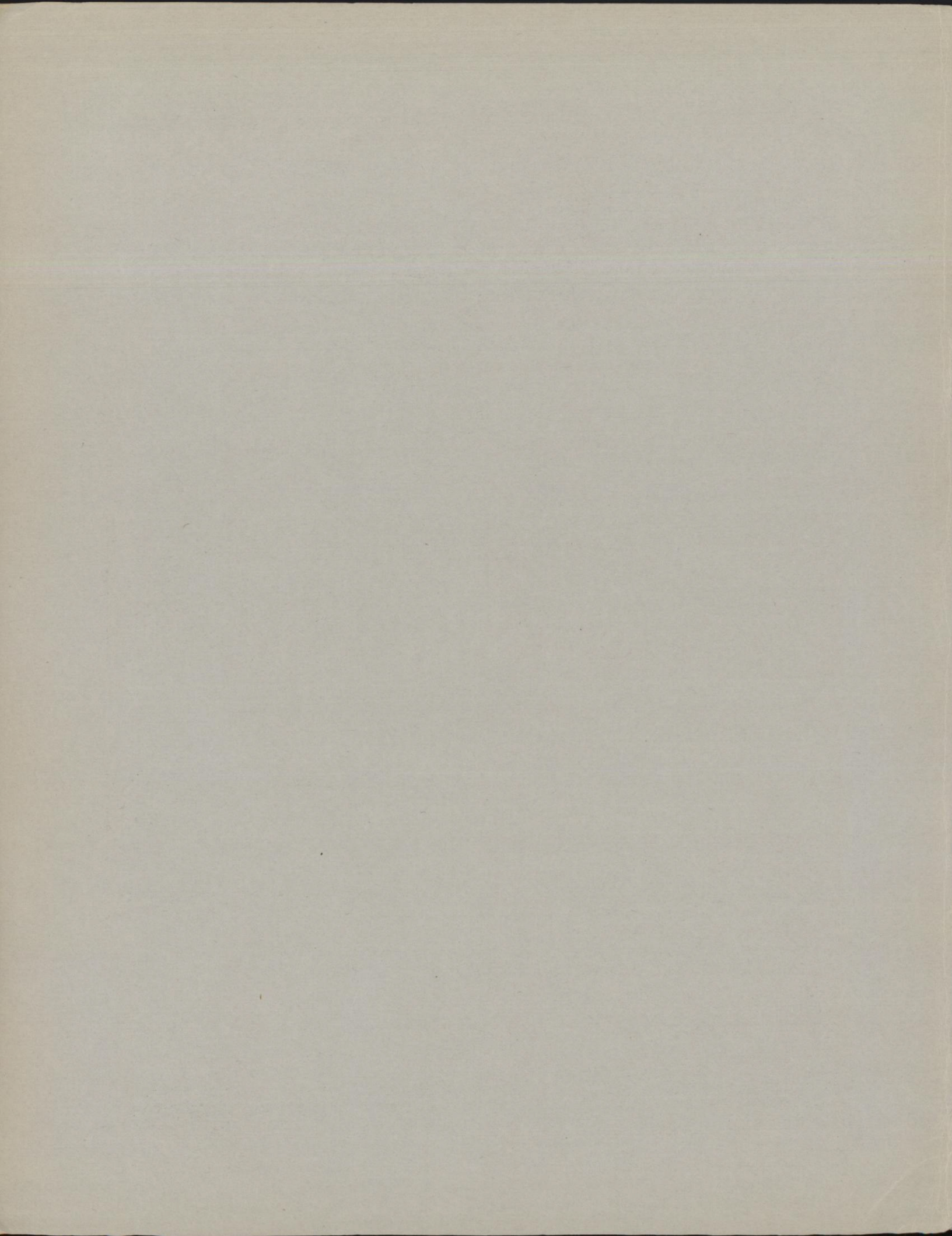


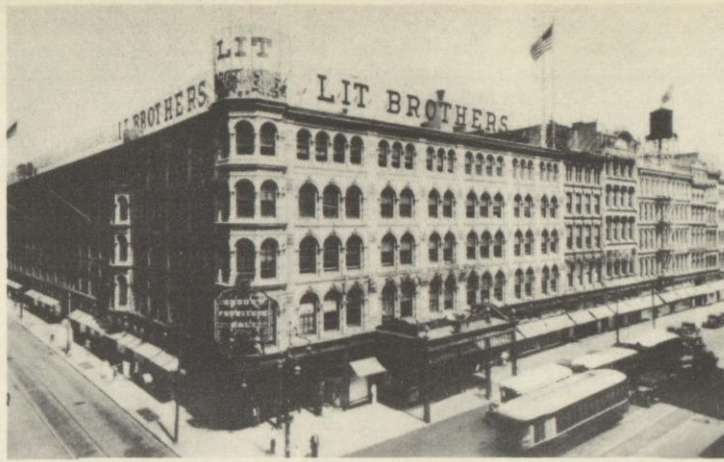
Annual Report

JANUARY 31, 1949

BOARDS
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WILMINGTON, DELAWARE





LIT BROTHERS
Philadelphia, Pa.



LIT BROTHERS
Warehouse
Philadelphia



SWERN & COMPANY
Trenton, N. J.



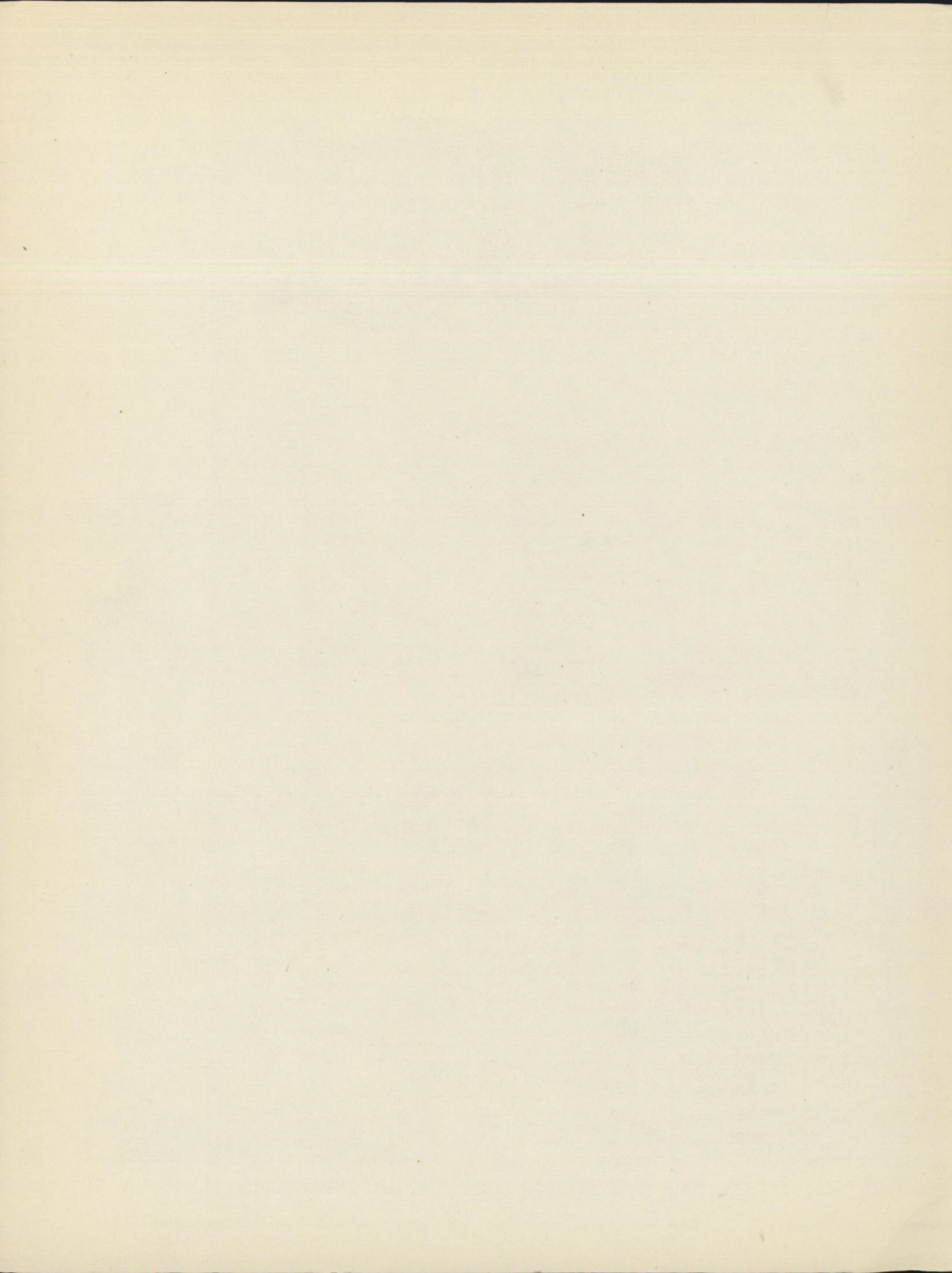
MAISON BLANCHE COMPANY
New Orleans, La.

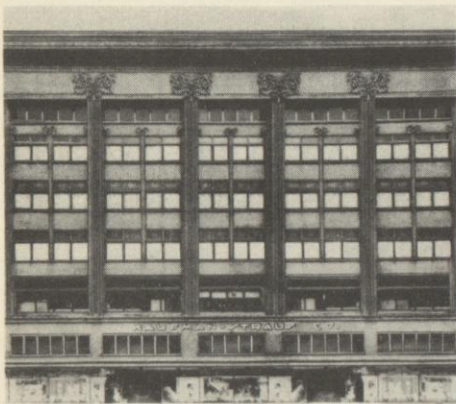


MAISON BLANCHE COMPANY
Carrollton, New Orleans



MAISON BLANCHE COMPANY
Gentilly, New Orleans

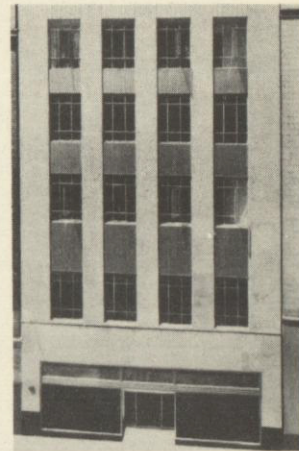




KAUFMAN-STRAUS COMPANY, INC.
Louisville, Ky.



LOVEMAN, JOSEPH & LOEB
Birmingham, Ala.



LOVEMAN, JOSEPH & LOEB ANNEX
Birmingham



RICHARD STORE COMPANY
Miami, Fla.



R. H. WHITE CORPORATION
Boston, Mass.



WISE, SMITH & COMPANY, INC.
Hartford, Conn.



R. H. WHITE CORPORATION
Warehouse
Cambridge, Mass.



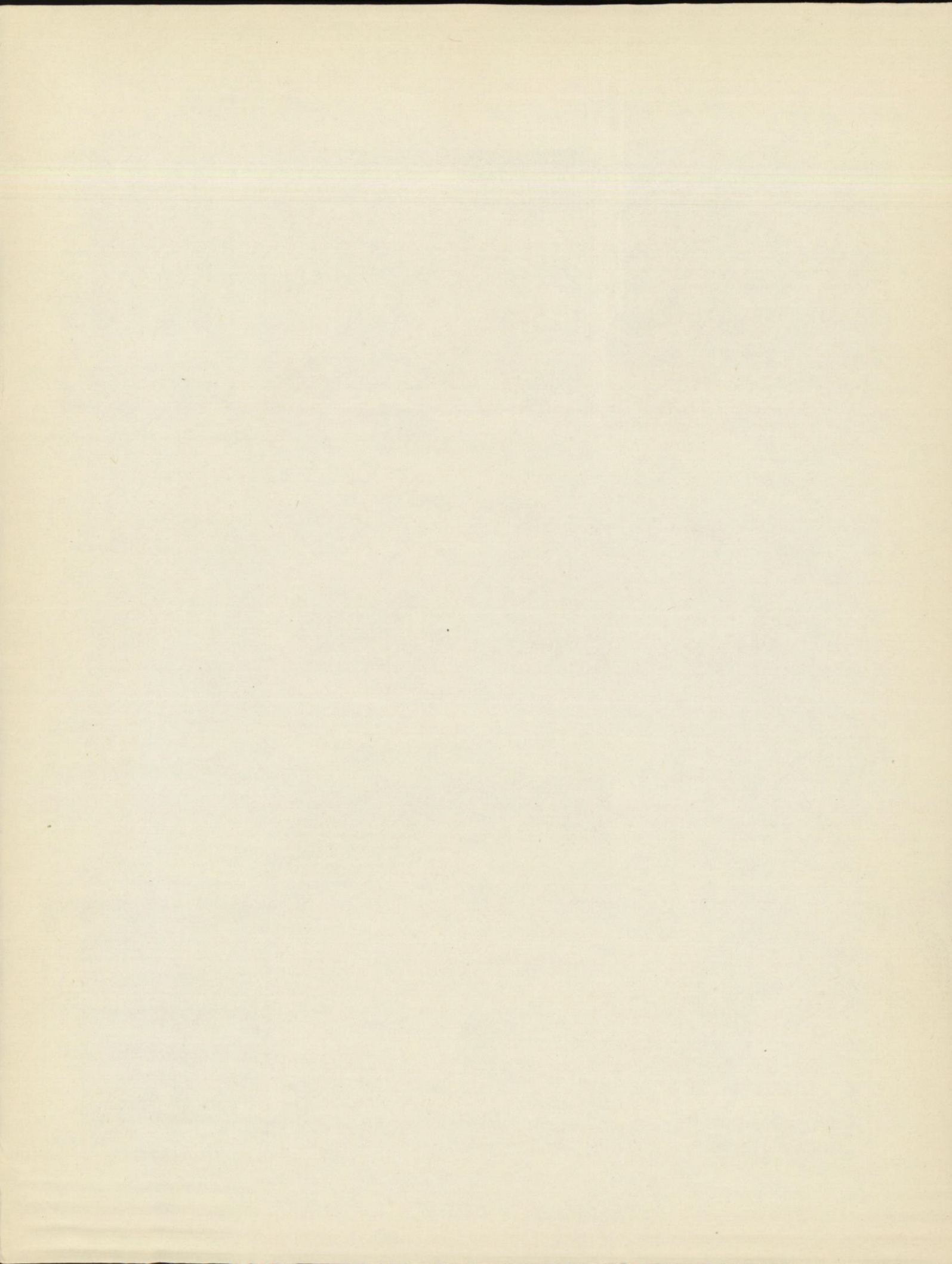
B. LOWENSTEIN & BROS., INC.
Memphis, Tenn.



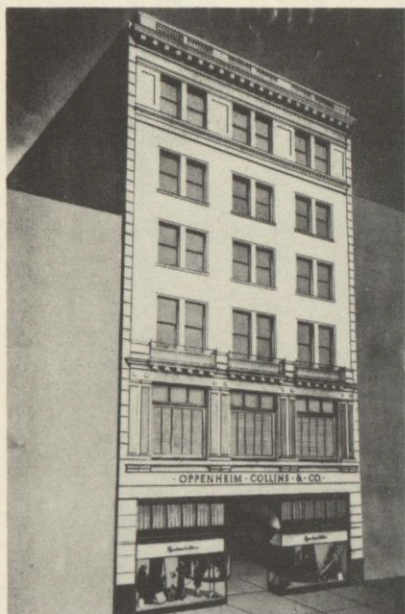
LOWENSTEIN'S "EAST"
Memphis



LOWENSTEIN'S HOME SERVICE, INC.
Memphis



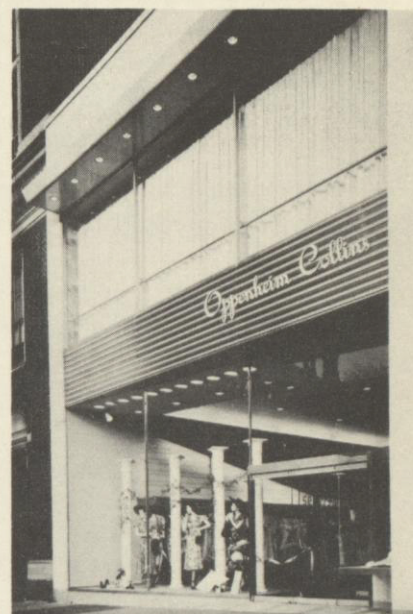
OPPENHEIM, COLLINS & Co., INC.



Philadelphia, Pa.



New York, 34th Street



Germantown, Philadelphia



Morristown, N. J.



Brooklyn, N. Y.



East Orange, N. J.



Garden City, N. Y.



Buffalo, N. Y.



White Plains, N. Y.

CITY STORES COMPANY

207 WEST NINTH STREET
WILMINGTON 43, DELAWARE

LIT BROTHERS

Philadelphia, Pennsylvania
Established 1891

MAISON BLANCHE COMPANY

New Orleans, Louisiana
Established 1887

Branches

Carrollton, New Orleans, La. 1942
Gentilly, New Orleans, La. 1947

LOVEMAN, JOSEPH & LOEB

Birmingham, Alabama
Established 1887

LOVEMAN, JOSEPH & LOEB ANNEX

Birmingham, Alabama 1948

R. H. WHITE CORPORATION

Boston, Massachusetts
Established 1858

WISE, SMITH & COMPANY, Incorporated

Hartford, Connecticut
Established 1889

SWERN & COMPANY

Trenton, New Jersey
Established 1885

B. LOWENSTEIN & BROS., INC.

Memphis, Tennessee
Established 1855

Branches

LOWENSTEIN'S HOME SERVICE, INC.

Memphis, Tennessee 1944

LOWENSTEIN'S "EAST"

Memphis, Tennessee 1948

KAUFMAN-STRAUS COMPANY, INC.

Louisville, Kentucky
Established 1879

RICHARD STORE COMPANY

Miami, Florida
Established 1896

OPPENHEIM, COLLINS & CO., INC.

New York, N. Y. 1901

Philadelphia, Pa. 1903
Buffalo, N. Y. 1905
Brooklyn, N. Y. 1906
Garden City, N. Y. 1938

White Plains, N. Y. 1941
East Orange, N. J. 1946
Morristown, N. J. 1947
Germantown, Phila. 1948

CITY STORES COMPANY

OFFICERS

ALBERT M. GREENFIELD	<i>Chairman of the Board</i>
SAUL COHN	<i>President</i>
DR. WILLIAM D. GORDON	<i>Executive Vice President and Treasurer</i>
JOHN B. KNOX	<i>Vice President</i>
MILTON A. KAMSLER	<i>Secretary</i>
GORDON K. GREENFIELD	<i>Asst. Secretary and Asst. Treasurer</i>
BENJAMIN SCHNECK	<i>Corporate Controller</i>

DIRECTORS

GUSTAVE G. AMSTERDAM Philadelphia, Pa.	WALTER T. GROSSCUP Philadelphia, Pa.
C. GORDON ANDERSON Miami, Fla.	GEORGE H. JOHNSON Philadelphia, Pa.
MURRY C. BECKER New York, N. Y.	JOHN B. KNOX New York, N. Y.
ALFRED BLASBAND Philadelphia, Pa.	DR. ISRAEL J. RACHLIN Newark, N. J.
DAVID BORTIN Philadelphia, Pa.	MAX ROBB Philadelphia, Pa.
HAROLD W. BRIGHTMAN Philadelphia, Pa.	HARRY W. SCHACTER Louisville, Ky.
PHILIP N. COHAN New York, N. Y.	O. W. SCHANBACHER Birmingham, Ala.
SAUL COHN New York, N. Y.	AARON R. SCHARFF Memphis, Tenn.
DR. WILLIAM D. GORDON Philadelphia, Pa.	HERBERT J. SCHWARTZ New Orleans, La.
ALBERT M. GREENFIELD Philadelphia, Pa.	HARRY G. SUNDHEIM Philadelphia, Pa.
GORDON K. GREENFIELD New York, N. Y.	JOHN J. TURTELTAUB New York, N. Y.

Auditors

ERNST & ERNST
19 Rector Street
New York, N. Y.

Transfer Agent

CENTRAL HANOVER BANK & TRUST CO.
70 Broadway
New York, N. Y.

Counsel

SUNDHEIM, FOLZ, KAMSLER & GOODIS
1315 Walnut Street
Philadelphia, Pa.

Registrar

THE CHASE NATIONAL BANK OF THE
CITY OF NEW YORK
11 Broad Street, New York, N. Y.

OPERATING RESULTS OF THE COMPANY

Fiscal Year Ended January 31, 1949

CITY STORES COMPANY AND SUBSIDIARY COMPANIES RECEIVED

from the sale of merchandise and services \$168,105,000

CITY STORES COMPANY AND SUBSIDIARY COMPANIES SPENT

for merchandise and general expenses—net \$130,229,000

for Federal and State Income Taxes 4,558,000 134,787,000

BALANCE REMAINING AVAILABLE FOR DISTRIBUTION \$ 33,318,000 100%

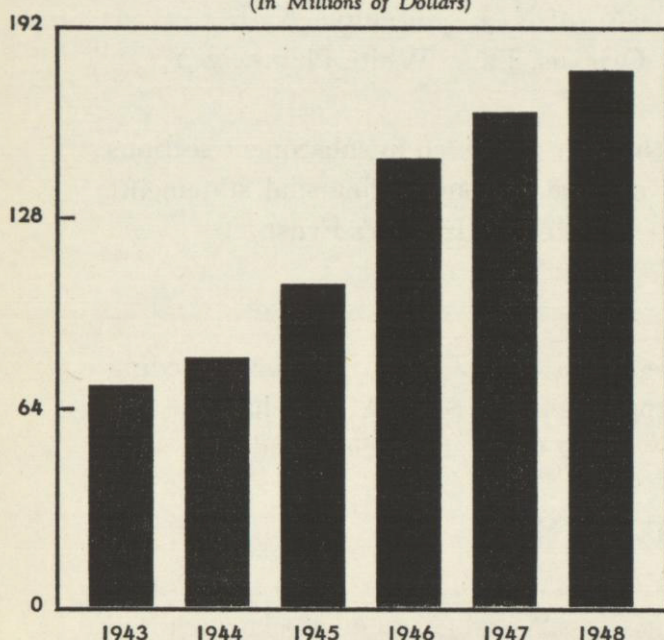
THIS REMAINDER WAS DISTRIBUTED AS FOLLOWS:

To employees for wages, salaries and employee benefits \$ 27,920,000 84%

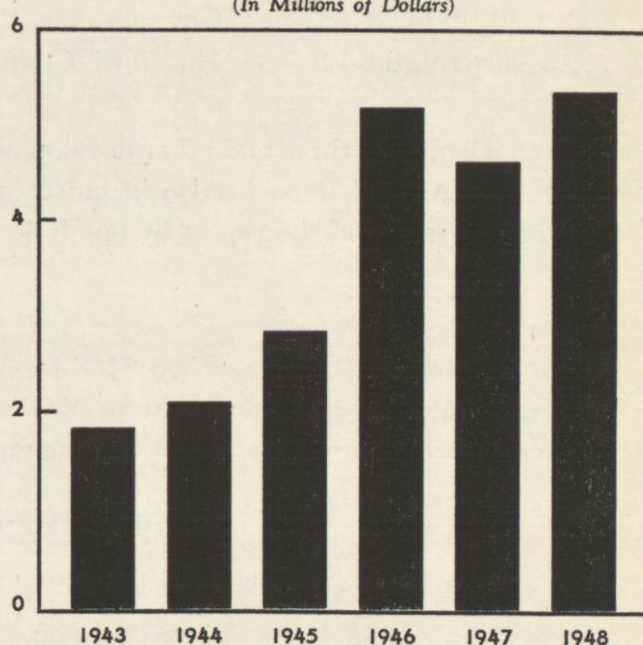
To shareholders for the use of their money \$ 2,025,000 6%

Held in the business for modernization, refixturing, improving the stores
and for the operation of a larger volume of business \$ 3,373,000 10%

SALES
1943—1948
(In Millions of Dollars)



NET EARNINGS
1943—1948
(In Millions of Dollars)



ANNUAL REPORT
FOR THE YEAR ENDED JANUARY 31, 1949

April 28, 1949

To the Stockholders:

The year has been one of considerable progress and accomplishment for the Company. Volume of sales at our stores established a new high record, both in terms of total dollars and in number of transactions. Earnings also were at record levels. Notable increases have been made in working capital, reserves, and accumulated earnings used in the business, all in keeping with our expanding operations.

Two leading stores with long standing good will were added to our family of stores, by the acquisition of old-established department stores, Wise, Smith & Company, in Hartford, Connecticut, and Swern's, in Trenton, New Jersey. The City Stores group now consists of twenty-two stores, in the following communities, a list of which will serve to give our stockholders an indication of the widening sphere of the Company's activities:

Birmingham, Ala.	East Orange, N. J.	Louisville, Ky.	New York, N. Y.
Boston, Mass.	Garden City, N. Y.	Memphis, Tenn.	Philadelphia, Pa.
Brooklyn, N. Y.	Gentilly, La.	Miami, Fla.	Princeton, N. J.
Buffalo, N. Y.	Germantown, Pa.	Morristown, N. J.	Trenton, N. J.
Carrollton, La.	Hartford, Conn.	New Orleans, La.	White Plains, N. Y.

Details of these and other developments during the year are given in subsequent sections of this Annual Report. Also included in this report are the customary financial statements for the year and the report by our independent auditors, Messrs. Ernst & Ernst.

SALES

Volume of sales reached \$168,104,985, compared with \$154,795,916 for the preceding year. Sales for the fiscal year would have totaled approximately \$175,000,000 had the full year's volume of Wise, Smith & Company, and of Swern & Company been included.

EARNINGS AND DIVIDENDS

Net Income for the year amounted to \$5,398,406 compared with \$4,675,371 for the preceding year. This was equivalent to \$3.19 per share on Class A and Common stocks outstanding compared with \$2.77 for the previous year.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

The earnings for the year are the highest in the Company's history. The previous high earnings occurred in the fiscal year ended January 31, 1947 when \$5,234,826 was earned, equal to \$3.10 per share.

Dividends paid during the year amounted to \$1.20 per share, the same rate that has been in effect since 1946.

Consolidated Earned Surplus at January 31, 1949, amounted to \$20,055,887, an increase of \$2,951,764 over the corresponding figure of the preceding year.

HIGHLIGHTS OF FINANCIAL STATEMENT

Working Capital

As shown by the accompanying consolidated balance sheet, Net Current Assets amounted to \$30,953,698 at January 31, 1949, compared with \$26,614,936 a year ago, an increase of \$4,338,762.

Inventories

Inventories at January 31, 1949, at \$16,145,255 compared with \$15,477,304 at the beginning of the fiscal year. The inventory figure for the present year end shows an increase because of the inclusion of Wise, Smith & Compay and of Swern & Company. Without such inclusion inventories would have shown a reduction of \$665,007, thus reflecting the effect of a conservative buying policy which limits inventory risks in an unstable market.

Inventories at Lit Brothers, Maison Blanche Company, B. Lowenstein & Bros., Inc., Loveman, Joseph and Loeb, and Kaufman-Straus Company, Inc. have been valued since January 31, 1942, by the use of the last-in, first-out principle (Lifo) of determining cost. Inventories in the remaining units are not on a Lifo basis.

Inventories are set forth on the consolidated balance sheet at \$16,145,255 after a reserve of \$4,459,397 by reason of application of \$3,891,153 for Lifo, and after deducting special inventory reserves of \$568,244.

Accounts Receivable

Accounts Receivable increased from \$18,876,907 to \$23,555,466 during the year as a result of a substantial increase in sales, an increase in the proportion of credit sales to total sales and the inclusion of the accounts receivable of the newly acquired subsidiaries.

Reserves

Reserves of \$1,175,000 are allocated for contingencies, \$2,433,558 for miscellaneous reserves and \$1,441,769 for accounts receivable, in addition to the inventory reserves of \$4,459,397 mentioned heretofore.

CHANGES IN LONG TERM OBLIGATIONS AND IN CORPORATE STRUCTURE

On January 31, 1949 your Company borrowed \$6,000,000 from The Chase National Bank of the City of New York and The First National Bank of Boston (\$3,000,000 being

borrowed from each of the two banks) at 3% interest, payable in equal annual installments of \$750,000 through August 1, 1956. Provision also is made for further payments without premium, upon certain contingencies, or if the annual consolidated net profit of the Company exceeds \$4,000,000.

Proceeds of the notes were used to pay off the balance of indebtedness of \$4,959,076 to the lending institutions and, the balance of the net proceeds of the loan, together with other funds of the Company, to pay off short term obligations incurred in connection with the purchase of the stock of Wise, Smith & Company.

During the year, in order to simplify the capital structure of your Company, R. H. White Realty Company, a wholly-owned subsidiary of R. H. White Corporation, Boston, Mass., and Maison Blanche Realty Company, a wholly-owned subsidiary of Maison Blanche Company, New Orleans, La., were merged into their respective parent companies.

Thereafter, Maison Blanche Company placed a first mortgage of \$3,000,000 on its property for a period of 15 years with interest at the rate of 4% per annum, with provision for amortization of principal. Proceeds of this mortgage were used to retire current indebtedness of the company, and for additional working capital.

EXPANSION AND IMPROVEMENT PROGRAM

Lit Brothers

With suburban branch stores becoming an increasingly important factor in the development of department store volume, Lit Brothers entered into a long term lease for a branch store in the populous 69th Street suburban district of metropolitan Philadelphia. Occupancy of this well located store will begin this Fall. The outstandingly fine transportation provided by surface lines, buses and important highways make the 69th Street area the focal point for a great and constantly widening trading area.

Our merchandising policy for this branch store will be the same policy that has been eminently successful in the main store; to provide complete assortments of outstanding value in middle price lines. Certain necessary improvements to the interior and exterior will be made as soon as possible.

Maison Blanche, during the year, leased a store on Carrollton Avenue, New Orleans, under an agreement whereby it discontinues its present Carrollton location. The new building will be completely remodeled and air conditioned for us by the owners. This unit will occupy 25,000 square feet instead of the present building of 8,000 square feet.

Oppenheim, Collins is enlarging its branch store at 538 Central Avenue, East Orange, New Jersey, under a lease for 28 years. The improvement will more than double its selling space.

During the year, Oppenheim, Collins increased its Garden City, Long Island, unit to more than double its previous selling space

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

Wise, Smith & Company

Your Company during the year acquired the business of Wise, Smith & Company in Hartford, Connecticut. This company has operated a store for the past 60 years. At the time of the purchase it leased the store premises and adjoining property for future expansion for a term of 30 years with options of two additional 10 year terms. Modernization of this unit is now under way.

Swern & Company

Lit Brothers, a subsidiary of your Company, on January 5, 1949, purchased all the Capital Stock of Swern & Company of Trenton, New Jersey. Swern & Company and its predecessor, since 1885, have operated a department store in Trenton. It also operates a branch store in Princeton, New Jersey.

CONCLUSION

The vital problems which face our industry during 1949 are first, the limitation of inventory risks in a so-called "buyer's market," which shows signs of strain; secondly, the satisfaction of the heightened desire of the customer for more value, quality and service by stepping up the efficiency of our selling and the way in which we present our services and conduct the operations of the business; thirdly, the necessity of procuring a greater productivity for our expense dollars by an engineered approach to the handling of our transactions. Your Company has already taken steps to meet these problems and will continue to devote its efforts towards their solution.

The past year saw the active inauguration of a number of steps to improve the working conditions and welfare of our employees.

We take great pleasure in acknowledging the cooperation and loyal services of our co-workers who are in a large measure responsible for the successful results achieved in the past year.

By the order of the
Board of Directors.

ALBERT M. GREENFIELD,
Chairman of the Board.

SAUL COHN,
President.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

COMPARATIVE CONSOLIDATED PROFIT AND LOSS STATEMENT*

Three years ended January 31, 1949

	Year Ended		
	January 31, 1949	January 31, 1948	January 31, 1947
NET SALES—INCLUDING LEASED DEPARTMENTS	\$168,104,985	\$154,795,916	\$138,487,552
COST OF GOODS SOLD—Note A	110,996,818	103,422,782	92,128,954
	<u>\$ 57,108,167</u>	<u>\$ 51,373,134</u>	<u>\$ 46,358,598</u>
OCCUPANCY, BUYING, PUBLICITY, SELLING, ADMINISTRA- TIVE, AND GENERAL EXPENSES	45,172,525	40,872,141	34,520,136
	<u>\$ 11,935,642</u>	<u>\$ 10,500,993</u>	<u>\$ 11,838,462</u>
OTHER INCOME:			
Interest, rentals, and miscellaneous	1,438,808	1,281,168	1,406,960
	<u>\$ 13,374,450</u>	<u>\$ 11,782,161</u>	<u>\$ 13,245,422</u>
OTHER DEDUCTIONS:			
Interest on City Stores Company's long-term obligations	146,319	169,939	190,847
Interest on mortgages, notes payable, etc.	155,958	187,855	268,975
Provisions for depreciation and amortization	1,222,967	1,069,476	807,454
Non-recurring repairs and alterations	—0—	109,670	866,185
Sundry charges, and provision for doubtful accounts, less recoveries	632,389	507,692	344,747
BALANCE BEFORE PROVISION FOR TAXES ON INCOME	<u>\$ 11,216,817</u>	<u>\$ 9,737,529</u>	<u>\$ 10,767,214</u>
FEDERAL AND STATE TAXES ON INCOME—ESTIMATED— NOTE F:			
Federal normal income tax and surtax	4,087,910	3,580,327	4,297,728
State income tax	304,502	249,381	289,289
Adjustments of prior years	165,704	166,665	(181,826)
	<u>\$ 4,558,116</u>	<u>\$ 3,996,373</u>	<u>\$ 4,405,191</u>
	<u>\$ 6,658,701</u>	<u>\$ 5,741,156</u>	<u>\$ 6,362,023</u>
Less amount applicable to preferred and common stocks of subsidiary companies not owned by City Stores Com- pany	1,260,295	1,065,785	1,127,197
NET PROFIT APPLICABLE TO CITY STORES COMPANY	<u>\$ 5,398,406</u>	<u>\$ 4,675,371</u>	<u>\$ 5,234,826</u>
Provision for contingencies after deducting portion applic- able to minority interest	82,328	82,328	48,025
Adjustments to inventories (last-in, first-out basis) of prior years and applicable federal income taxes—net credit after deducting portion applicable to minority interest	—0—	(76,649)	—0—
BALANCE TRANSFERRED TO EARNED SURPLUS	<u>\$ 5,316,078</u>	<u>\$ 4,669,692</u>	<u>\$ 5,186,801</u>

* Includes operations of Richard Store Company from August 23, 1946; of Wise, Smith & Company, Incorporated from August 18, 1948; and of Swern & Company (subsidiary of Lit Brothers) from January 1, 1949.

Notes referred to above appear on pages 12 and 13.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED SURPLUS

Year ended January 31, 1949

EARNED SURPLUS

Balance at February 1, 1948 \$17,104,122.71

Add:

Amount transferred from consolidated profit and loss statement for year	\$ 5,316,077.77	
Minority interest's share of the excess of cost of preferred stock reacquired by a subsidiary company from parent company over the par value thereof	886.07	
Sundry items—\$45,964.99, less amounts applicable to minority interests	29,248.33	5,346,212.17
		<u>\$22,450,334.88</u>

Deduct:

Dividends declared:

On Class A Stock—\$1.20 per share	\$ 480,000.00	
On Common Stock—\$1.20 per share	1,545,457.20	\$ 2,025,457.20
Excess of cost of capital stocks of subsidiary companies over equity in their tangible net assets at dates of acquisition—\$389,689.69, less amount applicable to minority interest	348,160.31	
Excess of cost of acquisition of minority interest in common stocks of subsidiary companies over equity in tangible net assets applicable to such shares	20,830.79	2,394,448.30
EARNED SURPLUS—BALANCE—JANUARY 31, 1949		<u><u>\$20,055,886.58</u></u>

CAPITAL SURPLUS

Balance at February 1, 1948 and January 31, 1949 \$ 2,741,516.65

No change during year.

Notes referred to above appear on pages 12 and 13.

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS

Cash		\$10,823,558.12
Marketable securities:		
United States Government securities—at cost and accrued interest (approximate market)	\$ 35,217.67	
Other—at market and accrued interest	56,878.73	92,096.40
Accounts receivable:		
Customers, including \$8,073,532.51 of installment accounts	\$24,497,600.58	
Suppliers, tenants, and others	499,635.24	\$24,997,235.82
Less allowances for doubtful	1,441,769.30	23,555,466.52
Merchandise inventories, less allowances of \$568,243.68—Note A		16,145,255.49
TOTAL CURRENT ASSETS		\$50,616,376.53

INVESTMENTS AND OTHER ASSETS

Investments:

United States Government securities—at cost and accrued interest—Note B	\$ 216,332.15	
Capital stock of a parent company (approximate market value \$211,000.00)—at cost	87,925.00	
Mortgages receivable (including \$100,777.66 pur- chased through a parent company or other affiliates)	315,578.92	
Sundry investments, less allowances of \$5,862.67....	191,515.96	\$ 811,352.03
Employees and sundry notes and accounts receivable, deposits, etc....		352,914.13
Cash surrender value of life insurance		39,002.38
Refundable income and excess profits taxes of prior years—estimated..	937,347.77	2,140,616.31

LAND, BUILDINGS, EQUIPMENT, AND IMPROVEMENTS—Note C

Land	\$ 7,639,908.10	
Buildings, fixtures, and equipment	\$23,201,612.99	
Less allowances for depreciation	9,895,518.87	13,306,094.12
Improvements to leased properties	\$ 2,334,169.76	
Less allowances for amortization	313,453.48	2,020,716.28
Construction and improvements in progress	476,856.92	23,443,575.42

GOOD WILL (carried on books of subsidiaries in total amount of \$1,877,664.72) 1.00

DEFERRED CHARGES

Inventories of supplies, prepaid insurance, taxes, and expenses	1,353,386.00	
	<u>\$77,553,955.26</u>	

AND SUBSIDIARY COMPANIES

SHEET, JANUARY 31, 1949

LIABILITIES

CURRENT LIABILITIES

Notes payable—banks (current loans)		\$ 1,302,500.00	
Installments due within one year:			
On promissory notes (3%) \$750,000.00, and on mortgages \$223,077.14		973,077.14	
Accounts payable for merchandise, etc.		9,197,712.83	
Accrued salaries, wages, taxes, interest, etc.		1,998,921.65	
Dividends payable by City Stores Company		506,520.30	
Federal and state taxes on income—estimated—Note F	\$ 5,734,618.37		
Less United States tax notes purchased for payment of such taxes when due		50,672.00	5,683,946.37
TOTAL CURRENT LIABILITIES			\$19,662,678.29

LONG-TERM OBLIGATIONS

Promissory notes (3%) banks—Note D:			
Payable in eight equal installments of \$750,000.00			
on the 1st day of August in each year commencing August 1, 1949	\$ 6,000,000.00		
Less amount included in current liabilities	750,000.00	\$ 5,250,000.00	
Mortgages payable	\$ 8,253,218.23		
Less installments included in current liabilities	223,077.14	8,030,141.09	13,280,141.09

RESERVES

For redemption of trading stamps, self-insurance, etc.	\$ 1,376,658.85		
For contingencies	1,175,000.00		
For restoration of leased properties	441,899.00		
For income taxes on installment sales gross profit (deferred for tax purposes)—estimated	615,000.00		3,608,557.85

DEFERRED

Unrealized gross profit and carrying charges on installment sales—Note E			787,598.52
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MINORITY INTERESTS

Preferred stock of subsidiary companies—at par	\$ 2,524,016.00		
Accrued undeclared dividends to January 31, 1949	12,693.58		
Common stock of subsidiary companies	1,296,712.00		
Surplus applicable thereto	5,142,149.70		8,975,571.28

CAPITAL STOCK AND SURPLUS

Capital Stock—par value \$5.00 per share:			
Class A Stock—6% cumulative and participating:			
700,000 shares authorized	\$ 3,500,000.00		
300,000 shares unissued	1,500,000.00		
400,000 shares issued and outstanding		\$ 2,000,000.00	
Common Stock:			
1,900,000 shares authorized	\$ 9,500,000.00		
609,957-8/12 shares unissued	3,049,788.34		
1,290,042-4/12 shares issued	\$ 6,450,211.66		
1,641-4/12 shares in treasury	8,206.66		
1,288,401 shares outstanding		6,442,005.00	
		\$ 8,442,005.00	
Surplus:			
Capital surplus	2,741,516.65		
Earned surplus (from February 1, 1935)—Notes D and F	20,055,886.58		31,239,408.23
			<u>\$77,553,955.26</u>

Notes referred to above appear on pages 12 and 13.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1949

NOTE A—Inventories of merchandise on hand and in transit are priced generally at cost on the last-in, first-out principle, less allowances; except as to five subsidiary companies, the inventories of which (totaling \$6,357,443 after deducting allowances) are stated generally at the lower of cost or market as determined by the retail inventory method, or at invoice cost in respect to merchandise in transit.

NOTE B—Deposited with lessor by a subsidiary company, as security for the performance of the terms and conditions of a lease to main store property.

NOTE C—The amounts for land, buildings, equipment, and improvements are stated at cost as to subsidiary companies paid for either in cash or capital stock issued therefor at time of organization, except as to:

1. Kaufman-Straus Company, Inc., at sound value at January 1936, determined by independent appraisers.
2. Kenville Realty Company, at written down amount for land.
3. Oppenheim, Collins & Co., Inc., the furniture and fixtures, and improvements at July 31, 1934, at nominal amount of \$1.00.

Subsequent additions to properties at cost.

NOTE D—Under the provisions of the Loan Agreement relating to Promissory Notes (3%) payable to banks, the Company has the right to prepay the notes in their entirety or in part. The Company, among other things, covenants:

1. In addition to the specified annual installment payments, to make required prepayments on the principal amount of the notes (a) on or before August 1, 1950 and annually thereafter, an amount equal to 25% of the excess over \$4,000,000 of the consolidated net profit (as defined) for the preceding fiscal year, and (b) from net proceeds of sales of fixed or capital assets (as defined) by the Company or any subsidiary, including funds received by the Company from the purchase or redemption by any subsidiary of its preferred stock owned by the Company.
2. To maintain (a) consolidated net assets of not less than two times consolidated current liabilities, and (b) consolidated net current assets of at least \$20,000,000.
3. To cause each department store subsidiary to maintain current assets of at least 1.6 times current liabilities, and
4. It will not declare or pay cash dividends on, or make any other distribution on any of its capital stock, which in the aggregate subsequent to February 2, 1949, exceeds the total of (a) 50% of the consolidated net profit (as defined) subsequent to January 31, 1949, and (b) the sum of \$2,000,000.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

January 31, 1949

NOTE E—Deferred income from installment sales comprises (1) unearned carrying charges at January 31, 1949 on customers' installment sales as to five subsidiaries, and (2) unearned carrying charges and unrealized gross profit on installment sales as to three other subsidiaries.

NOTE F—These statements are subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

NOTE G—Reference is made to the notes appearing on the accompanying balance sheets of subsidiary companies.

ERNST & ERNST
19 RECTOR STREET
NEW YORK

BOARD OF DIRECTORS,
CITY STORES COMPANY,
WILMINGTON, DELAWARE.

We have examined the consolidated balance sheet of CITY STORES COMPANY and subsidiaries and have examined (with the exception noted below) the balance sheets of the individual companies as of January 31, 1949, and the statements of profit and loss and surplus of City Stores Company and the consolidated statements of profit and loss and surplus of that Company and its subsidiaries for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Accounts receivable were tested by communication with a selected number of customers. We were present at stores during the taking of inventories, observed the procedures followed and test checked the quantities determined by employees of the stores as on hand. The consolidated financial statements of Oppenheim, Collins & Co., Inc., and its subsidiary companies were not examined by us and have been incorporated in the accompanying consolidated financial statements on the basis of a report by other independent accountants.

In our opinion, the accompanying consolidated balance sheet and related statements of profit and loss and surplus, and the balance sheets of the individual companies examined by us, present fairly the financial position of City Stores Company and its subsidiaries and of the individual companies at January 31, 1949, and the consolidated results of operations and of the operations of City Stores Company for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

April 22, 1949.

CITY STORES COMPANY (Individually)

STATEMENTS OF PROFIT AND LOSS AND SURPLUS

Year ended January 31, 1949

INCOME

Dividends from subsidiary companies:

In cash	\$ 2,184,085.50	
In property (at fair market value)—Note A	600,000.00	\$ 2,784,085.50

From subsidiary companies for management, advisory and sales service, less amount of \$388,835.16 transferred to City Stores Mercantile Company, Inc. (a wholly-owned subsidiary) for buying services		379,294.20
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Profit on sale of 5,690 shares of 6% Cumulative Preferred Stock of Lit Brothers, a subsidiary company (purchased by the subsidiary for retirement)		4,267.50
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Miscellaneous, including interest (\$10,000.00), and rent (\$3,064.52) from subsidiary companies		17,586.93
		<u>\$ 3,185,234.13</u>

DEDUCTIONS

Administrative and general expenses	\$ 216,659.74	
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Interest:

On long-term notes payable	\$ 146,319.03	
Other	625.67	146,944.70
		<u>363,604.44</u>

PROFIT BEFORE TAXES ON INCOME		\$ 2,821,629.69
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Federal taxes on income—estimated	\$ 170,000.00	
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Less over provision for prior year	86.47	169,913.53
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NET PROFIT FOR YEAR		<u><u>\$ 2,651,716.16</u></u>
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EARNED SURPLUS

Balance at February 1, 1948	\$ 4,220,160.57	
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Net profit for year	2,651,716.16	
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\$ 6,871,876.73

Deduct dividends declared:

On Class A stock—\$1.20 per share	\$ 480,000.00	
On Common stock—\$1.20 per share	1,546,081.20	2,026,081.20

BALANCE AT JANUARY 31, 1949—Note B		<u><u>\$ 4,845,795.53</u></u>
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CAPITAL SURPLUS

Balance at February 1, 1948 and January 31, 1949	\$ 1,879,085.45	
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No change during year.

NOTE A—Reference is made to Note A of "Notes to Balance Sheet" of City Stores Company.

NOTE B—Reference is made to Notes D and F of "Notes to Consolidated Financial Statements."

BALANCE SHEET,

ASSETS

INVESTMENTS IN SUBSIDIARY COMPANIES

Capital Stocks:

City Stores Company proportion of net tangible assets of subsidiary companies based on their balance sheets at January 31, 1935, plus subsequent acquisitions of capital stocks of subsidiaries at cost. City Stores Company proportion of net tangible assets at January 31, 1949 amounted to \$37,353,925.66

\$20,847,834.05

Account receivable 1,094.27 \$20,848,928.32

CURRENT ASSETS

Cash 606,477.56

INVESTMENT AND OTHER ASSETS

Capital stock of Affiliated Retailers, Inc. \$ 84,000.00

Sundry account receivable 14,487.51 98,487.51

LAND, BUILDINGS, AND EQUIPMENT

Land—Note A \$ 215,475.00

Buildings—Note A \$ 734,525.00

Less allowance for depreciation 1,457.39 733,067.61

Fixtures and equipment—at cost \$ 22,858.86

Less allowance for depreciation 6,387.77 16,471.09 965,013.70

DEFERRED CHARGES

Leasehold improvements, less amortization \$ 3,086.52

Prepaid insurance and other expenses 4,486.37 7,572.89

NOTE A—Land and buildings (subject to payment of \$350,000 to subsidiary company), received as a dividend by City Stores Company from one subsidiary, are stated at the fair market value of such property determined by independent realtors. The fair market value of the property is \$433,750 in excess of the depreciated cost thereof as previously carried in the accounts of the subsidiary. This property was sold subsequently to January 31, 1949 at an amount not less than fair market value at which it is carried.

NOTE B—Reference is made to Note D of "Notes to Consolidated Financial Statements" in respect to certain provisions under the Loan Agreement.

NOTE C—This balance sheet is subject to adjustments, if any, upon final determination of liability for federal taxes on income.

\$22,526,479.98

COMPANY (Individually)

JANUARY 31, 1949

LIABILITIES

CURRENT LIABILITIES

Installments due within one year on promissory notes	\$	750,000.00
Accounts payable:		
Subsidiary companies—Note A	\$	548,490.18
For expenses, etc.		<u>25,680.31</u>
		574,170.49
Accrued taxes, etc.		11,244.63
Sundry deposit		97,658.58
Dividends—payable February 1, 1949		506,520.30
Federal taxes on income—estimated		<u>170,000.00</u>
TOTAL CURRENT LIABILITIES	\$	2,109,594.00

LONG-TERM OBLIGATIONS

Promissory notes (3%) to banks—Note B:		
Payable in eight equal installments of \$750,000 on the 1st day of August in each year commencing August 1, 1949	\$	6,000,000.00
Less amount included in current liabilities		<u>750,000.00</u>
		5,250,000.00

CAPITAL STOCK AND SURPLUS

Capital Stock—par value \$5.00 per share:

Class A Stock—6% cumulative and participating:

700,000 shares authorized	\$	3,500,000.00
300,000 shares unissued		<u>1,500,000.00</u>
400,000 shares issued and outstanding	\$	2,000,000.00

Common Stock:

1,900,000 shares authorized	\$	9,500,000.00
609,957-8/12 shares unissued		<u>3,049,788.34</u>
1,290,042-4/12 shares issued	\$	6,450,211.66
1,641-4/12 shares in treasury		<u>8,206.66</u>
1,288,401 shares outstanding		6,442,005.00
	\$	8,442,005.00

Surplus:

Capital surplus	1,879,085.45	
Earned surplus (from February 1, 1935)—Notes B and C	<u>4,845,795.53</u>	15,166,885.98
		<u>\$22,526,479.98</u>

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS

Cash			\$ 5,384,536.87
United States Government securities and accrued interest			20,123.92
Accounts receivable:			
Trade—including installment accounts of			
\$4,755,840.80	\$10,573,628.60		
Creditors' debit balances	89,197.23	\$10,662,825.83	
Less allowance for doubtful		648,975.56	10,013,850.27
Merchandise inventories—Note A			4,039,769.93
TOTAL CURRENT ASSETS			\$19,458,280.99

INVESTMENTS AND OTHER ASSETS

Securities—at cost:			
United States Government securities and accrued interest—Note C	\$ 216,332.15		
Capital stock of a parent company (indicated market value \$150,000.00)	66,925.00		
Sundry investments	22,104.00	\$ 305,361.15	
Mortgages receivable (including \$100,777.66 purchased through a parent company or other affiliates)		295,333.42	
Sundry accounts receivable and deposits		131,607.83	
Deposit in escrow, pending final determination of cost of subsidiary ...		83,195.58	
Refundable income and excess profits taxes of prior years		674,977.18	1,490,475.16

PROPERTY, PLANT, AND EQUIPMENT

Land—at cost		\$ 2,099,268.95	
Buildings, fixtures, and equipment—at cost	\$ 5,890,298.77		
Less allowances for depreciation	2,032,732.51	3,857,566.26	
		\$ 5,956,835.21	
Leasehold improvements—at cost	\$ 1,599,088.51		
Less allowance for amortization	145,155.71	1,453,932.80	7,410,768.01

GOOD WILL—At Cost			132,289.68
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DEFERRED CHARGES

Prepaid rent, expenses, and inventory of supplies			275,465.47
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\$28,767,279.31

NOTE A—Inventories of merchandise on hand and in transit are priced at cost on the last-in, first-out basis, determined under principles and by the use of published indices of price changes approved by the Commissioner of Internal Revenue with respect to department stores generally, except that the inventories (totaling \$668,301.66) of a subsidiary acquired during the year ended January 31, 1949, are stated on the basis of cost or market, whichever is lower, as determined by the retail inventory method on the first-in, first-out basis. The last-in, first-out principle of pricing resulted in an aggregate amount for inventories at January 31, 1949, approximately \$1,925,000.00 less than the amount which would have been determined under the retail inventory method applied without regard to such principle.

NOTE B—During the fiscal year ended January 31, 1946, the Company sold its Philadelphia store property at a loss of \$6,461,004.40. As a result of the loss, no provision for taxes on income of the Company for that year was made, and refundable taxes on income of prior years were estimated in the sum of \$1,325,000.00 through application of the carry-back provisions of the Internal Revenue Code. The Company has received a ruling from the Bureau of Internal Revenue stating that any loss sustained on the sale of the property is deductible for tax purposes, but the amount of deductible loss is subject to final determination. Until final settlement in respect of the afore-mentioned loss and examination of the tax returns in other respects, the ultimate amounts of income and excess profits taxes for all years subsequent to the year ended January 31, 1940, are subject to final determination.

SUBSIDIARY COMPANIES

SHEET, JANUARY 31, 1949

LIABILITIES

CURRENT LIABILITIES

Trade accounts payable	\$ 2,165,100.91	
Salaries, wages and commissions, pay roll taxes, and taxes withheld from employees ..	756,451.21	
Dividends payable	3,213.06	
Accrued accounts	219,645.44	
Federal and state taxes on income—estimated—Note B	2,706,254.18	
First mortgage installments maturing within one year	28,185.19	
TOTAL CURRENT LIABILITIES	\$ 5,878,849.99	

FIRST MORTGAGE ON LAND AND BUILDINGS

Due quarterly 1949 to 1955	\$ 1,169,826.41	
Less principal installments maturing within the year	28,185.19	1,141,641.22

RESERVES

For redemption of trading stamps	\$ 1,059,200.29	
For income taxes on installment sale gross profit (deferred for tax purposes)—estimated	615,000.00	
For contingencies	900,000.00	
For self insurance	100,000.00	2,674,200.29

DEFERRED CREDITS

Unearned carrying charges on installment sales	\$ 196,250.66	
Discounts applicable to unsold merchandise	251,926.59	448,177.25

CAPITAL STOCK AND SURPLUS

Capital stock:

Preferred 6% cumulative, par value \$100.00 per share; redeemable at \$105.00 per share—Note D:		
Authorized and issued 69,800.80 shares; outstanding 69,688.16 shares after deducting 112.64 shares in treasury	\$ 6,968,816.00	
Common, no par value:		
Authorized and issued 1,000,000 shares; outstanding 999,145 shares after deducting 855 shares in treasury	999,145.00	
TOTAL CAPITAL STOCK	\$ 7,967,961.00	

Surplus:

Capital	80,133.83	
Earned—Note B	10,576,315.73	18,624,410.56

Long-Term Lease Commitments—Note C

\$28,767,279.31

NOTE C—At January 31, 1949, The Company and its subsidiaries had six leases on real estate property with terms expiring more than three years from that date, including lease on its principal store premises in Philadelphia. The aggregate minimum annual rentals under such leases amounted to approximately \$410,000.00, plus in certain instances, real estate taxes and insurance covering the lessors' interests. The terms of the leases vary and most carry renewal privileges.

U. S. Government Bonds in the principal amount of \$215,000.00 have been deposited with the lessor of the Company's Philadelphia store property, as security for the performance of the terms and conditions of the lease.

NOTE D—Dividends on the Preferred 6% Cumulative Stock have been paid to January 2, 1949, a dividend date.

BALANCE SHEET,

ASSETS

CURRENT ASSETS

Cash		\$ 1,684,422.02
Accounts receivable:		
Customers, including \$772,346.85 of installment accounts	\$ 3,581,740.15	
Suppliers and tenants	115,759.53	
	<u>\$ 3,697,499.68</u>	
Less allowance for doubtful	241,388.36	3,456,111.32
Merchandise inventories—generally at cost on the “last-in, first-out” principle, less allowance of \$40,000.00		<u>2,777,940.64</u>
TOTAL CURRENT ASSETS		\$ 7,918,473.98

AFFILIATED COMPANIES

Accounts receivable	101,802.46
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INVESTMENTS AND OTHER ASSETS

Investments:		
Capital Stock of a parent company (approximate market value \$61,000.00)	\$ 21,000.00	
Capital Stock of City Stores Company—book carrying amount of 94 shares of common stock	470.01	
Investments in other companies	64,419.37	
Sundry accounts receivable, advances, etc., less allowance of \$137.04 ...	32,980.18	
Refundable income and excess profits taxes of prior years—estimated ..	<u>81,600.00</u>	200,469.56

INVESTMENT IN SUBSIDIARY COMPANY

B. Lowenstein & Bros., Inc.:		
Investment in 11,450 shares of common stock (its entire outstanding capital stock)—at cost—(net tangible assets as shown by that subsidiary company’s consolidated balance sheet at January 31, 1949 amounted to \$2,768,001.22)		2,219,411.38

LAND, BUILDINGS, AND EQUIPMENT

Land—at cost	\$ 1,266,616.45	
Buildings, fixtures, and equipment—at cost	\$ 5,687,783.53	
Less allowances for depreciation	<u>2,468,150.44</u>	3,219,633.09
Improvements to leased property—at cost	\$ 33,819.49	
Less allowance for amortization	<u>1,937.26</u>	<u>31,882.23</u>
		4,518,131.77

GOOD WILL	376,031.24
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DEFERRED CHARGES

Inventory of supplies, prepaid insurance, taxes, and expenses	307,341.49
	<u>\$15,641,661.88</u>

JANUARY 31, 1949

LIABILITIES

CURRENT LIABILITIES

Notes payable to banks	\$	300,000.00
Mortgage installments payable within one year		91,359.02
Accounts payable for merchandise, etc. including \$830.18 to affiliated companies		1,831,316.07
Accrued salaries, wages, taxes, etc.		347,402.20
Federal and state taxes on income—estimated—Note B		882,584.83
TOTAL CURRENT LIABILITIES	\$	3,452,662.12

LONG-TERM OBLIGATIONS

Real estate mortgage (4%) payable in quarterly installments of \$52,500.00 each—applicable to principal and interest—with balance due on January 31, 1964	\$	3,000,000.00
Less installments included in current liabilities	91,359.02	2,908,640.98

RESERVES

For self-insurance	\$	29,500.00
For contingencies	75,000.00	104,500.00

DEFERRED INCOME

Unrealized gross profit and carrying charges on installment sales	312,083.47
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CAPITAL STOCK AND SURPLUS

Capital Stock:

Common Stock—par value \$50.00 per share:

Authorized 120,000 shares; issued 80,000	\$	4,000,000.00
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Surplus:

Capital surplus	250,000.00
Earned surplus—Note B	4,613,775.31
	8,863,775.31

Long-Term Lease Commitments—Note A

\$15,641,661.88

NOTE A—At January 31, 1949, the Company had five leases on real estate properties with terms expiring more than three years from that date. The aggregate minimum annual rental under such leases amount to approximately \$90,500.00, plus in certain instances real estate taxes, insurance covering the lessors' interest, and additional amounts based on percentages of sales.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

B. LOWENSTEIN & BROS., INC. AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET

January 31, 1949

ASSETS

CURRENT ASSETS

Cash		\$	317,887.31
Accounts receivable:			
Customers, including \$454,813.30 of installment accounts	\$ 2,089,897.90		
Suppliers	27,920.24		
	<u>\$ 2,117,818.14</u>		
Less allowance for doubtful	76,000.00		2,041,818.14
Merchandise inventories—generally at cost on the "last-in, first-out" principle, less allowance of \$100,000.00			1,534,685.49
TOTAL CURRENT ASSETS		\$	<u>3,894,390.94</u>

AFFILIATED COMPANIES

Accounts receivable			12,947.09
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INVESTMENTS AND OTHER ASSETS

Sundry investments, less allowance of \$269.67	\$	251.00	
Sundry accounts receivable		9,077.49	
Refundable income and excess profits taxes of prior years—estimated ..		99,400.00	108,728.49

LAND, BUILDINGS, AND EQUIPMENT

Land—at cost	\$	52,655.95	
Building, fixtures, and equipment—at cost	\$ 1,538,799.26		
Less allowances for depreciation	1,002,989.83	535,809.43	
Improvements to leased property—at cost	<u>\$ 162,439.76</u>		
Less allowance for amortization	72,002.51	90,437.25	
Improvements in course of construction		37,394.35	716,296.98

GOOD WILL			150,000.00
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DEFERRED CHARGES

Inventory of supplies, prepaid insurance, taxes, and other expenses		90,530.97	
		<u>\$ 4,972,894.47</u>	

LIABILITIES

CURRENT LIABILITIES

Notes payable to bank	\$	82,500.00	
Accounts payable for merchandise, etc., including \$416.50 to affiliated companies		1,361,432.46	
Accrued salaries, wages, taxes, etc.		116,304.78	
Federal taxes on income—estimated—Note B		310,550.00	
TOTAL CURRENT LIABILITIES		<u>\$ 1,870,787.24</u>	

RESERVES

For self-insurance	\$	11,500.00	
For contingencies		25,000.00	36,500.00

DEFERRED INCOME

Unrealized gross profit and carrying charges on installment sales			147,606.01
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CAPITAL STOCK AND SURPLUS

Capital Stock:			
Common Stock—no par value; declared value \$100.00 per share:			
Authorized 15,000 shares; issued 11,450 shares	\$ 1,145,000.00		
Surplus:			
Capital surplus		414,719.33	
Earned surplus (from October 1, 1938)—Note B		<u>1,358,281.89</u>	2,918,001.22

Long-Term Lease Commitments—Note A

\$ 4,972,894.47

NOTE A—At January 31, 1949, the Company had five leases on real estate properties with terms expiring more than three years from that date. The aggregate minimum annual rentals under such leases amount to approximately \$246,238.00, plus in certain instances, real estate taxes and insurance covering the lessors' interest, and increased amounts based on percentage of sales in the case of two leases covering the main and suburban branch store premises.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income.

LOVEMAN, JOSEPH & LOEB AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET

January 31, 1949

CURRENT ASSETS

Cash		\$	548,367.13
Accounts receivable:			
Customers, including \$437,747.87 of installment accounts	\$ 1,872,832.45		
Suppliers	19,684.19		
	\$ 1,892,516.64		
Less allowance for doubtful	150,000.00		1,742,516.64
Merchandise inventories—generally at cost on the “last-in, first-out” principle, less allowance of \$268,243.68			1,426,175.74
TOTAL CURRENT ASSETS		\$	3,717,059.51

AFFILIATED COMPANIES

Accounts receivable			14,437.36
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INVESTMENTS AND OTHER ASSETS

Investments:			
426 shares of Common Stock of City Stores Company,			
parent company, at cost	\$ 4,695.75		
Sundry—less allowance of \$5,593.00	4,015.33	\$	8,711.08
Cash surrender value of life insurance		39,002.38	
Note, sundry accounts receivable, etc.		8,226.85	55,940.31

LAND, BUILDINGS, AND EQUIPMENT—Note A

Land		\$	994,465.96
Buildings, equipment, furniture, fixtures, etc.	\$ 1,727,585.99		
Less allowances for depreciation	826,068.18		901,517.81
Construction in progress		399,979.71	2,295,963.48

GOOD WILL

.....			800,000.00
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DEFERRED CHARGES

Inventory of supplies, prepaid insurance, taxes, etc.			71,527.86
		\$	6,954,928.52

CURRENT LIABILITIES

LIABILITIES

Note payable to bank		\$	200,000.00
Mortgage installments due within one year			10,646.04
Accounts payable for merchandise, etc.			594,325.96
Accrued salaries, wages, taxes, and expenses			102,804.22
Construction contracts in progress			98,752.70
Federal and state taxes on income—estimated—Note D			726,844.84
TOTAL CURRENT LIABILITIES		\$	1,733,373.76

LONG-TERM OBLIGATION

Real estate mortgage (3½%) payable in 139 monthly installments of \$1,429.77 each—applicable to principal and interest	\$ 163,192.78		
Less installments included in current liabilities	10,646.04		152,546.74

RESERVES

For special compensation, etc.			147,218.69
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CAPITAL STOCK AND SURPLUS

Capital Stock—par value \$100.00 per share:			
Preferred Stock—7% cumulative—redemption price			
\$120.00 per share:			
Authorized and issued 10,000 shares	\$ 1,000,000.00		
Less 9,993 shares in treasury and 7 shares called			
for redemption	1,000,000.00	\$	—0—
Common Stock:			
Authorized and issued 16,220 shares	1,622,000.00		
Earned surplus—Notes B and D	3,299,789.33		4,921,789.33

Long-Term Lease Commitments—Note C

\$ 6,954,928.52

NOTE A—Land stated at cost paid for either in cash or capital stock issued therefor at time of organization; buildings, fixtures, and equipment stated at cost, less allowances for depreciation.

NOTE B—Restricted in the amount of \$1,000,000.00 representing the par value of preferred shares held in treasury or called for redemption.

NOTE C—At January 31, 1949, the Company had two leases on real estate properties with terms expiring more than three years from that date. The aggregate annual rentals under such leases amount to \$15,545.00.

NOTE D—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

R. H. WHITE CORPORATION

BALANCE SHEET

January 31, 1949

ASSETS

CURRENT ASSETS

Cash		\$ 224,783.48
Accounts receivable:		
Customers, including \$1,183,667.06 of installment accounts	\$ 2,726,492.03	
Suppliers and others	78,714.56	
	<u>\$ 2,805,206.59</u>	
Less allowance for doubtful	136,788.40	2,668,418.19
Merchandise inventories:		
On hand—at lower of cost or market as determined by the retail inventory method	\$ 2,116,460.89	
In transit—at invoice cost	174,358.28	2,290,819.17
TOTAL CURRENT ASSETS		<u>\$ 5,184,020.84</u>

AFFILIATED COMPANIES

Accounts receivable		364,061.48
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INVESTMENTS AND OTHER ASSETS

Sundry investments	\$ 5,880.00	
Sundry accounts receivable	16,898.79	22,778.79

LAND, BUILDINGS, AND EQUIPMENT

Land—at cost		\$ 1,384,288.29
Buildings, fixtures, and equipment—at cost	\$ 1,673,541.94	
Less allowances for depreciation	322,751.99	1,350,789.95
Improvements to leased properties—at cost	\$ 84,866.96	
Less allowance for amortization	5,681.80	79,185.16
		<u>2,814,263.40</u>

DEFERRED CHARGES

Inventory of supplies, prepaid insurance, and expenses		127,345.32
		<u>\$ 8,512,469.83</u>

LIABILITIES

CURRENT LIABILITIES

Notes payable to bank	\$ 400,000.00	
Mortgage installments due within one year	62,759.30	
Accounts payable for merchandise, etc.	691,160.42	
Accrued salaries, wages, taxes, interest, etc.	235,454.43	
Federal taxes on income—estimated—Note B	158,246.36	
TOTAL CURRENT LIABILITIES		<u>\$ 1,547,620.51</u>

LONG-TERM OBLIGATION

Mortgage note (3½%) payable \$141,000.00 annually, covering principal and interest—maturing May 1, 1962	\$ 2,258,812.66	
Less installments included in current liabilities	62,759.30	2,196,053.36

RESERVE

For restoration of leased properties		441,899.00
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DEFERRED INCOME

Unearned carrying charges on installment sales		41,445.65
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CAPITAL STOCK AND SURPLUS

Capital Stock:		
Preferred Stock—6% cumulative—par value \$100.00 per share; redemption price \$100.00 per share:		
Authorized and issued 25,000 shares	\$ 2,500,000.00	
Less 1,000 shares in treasury	100,000.00	
	<u>\$ 2,400,000.00</u>	
Common Stock—no par value:		
Authorized and issued 13,000 shares	1,300,000.00	\$ 3,700,000.00
Earned surplus—Note B	585,451.31	4,285,451.31

Long-Term Lease Commitments—Note A

\$ 8,512,469.83

NOTE A—At January 31, 1949, the Company had six leases on real estate properties with terms expiring more than three years from that date. The aggregate minimum annual rentals under such leases amount to approximately \$145,500.00, plus in certain instances, real estate taxes and insurance covering the lessors' interest.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income.

KAUFMAN-STRAUS COMPANY, INC. AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET

January 31, 1949

CURRENT ASSETS

Cash		\$	339,715.33
Accounts receivable:			
Customers, including \$247,965.84 of installment accounts	\$	898,659.53	
Suppliers		19,542.06	
	\$	918,201.59	
Less allowance for doubtful		45,000.00	873,201.59
Merchandise inventories—generally at cost on the “last-in, first-out” principle, less allowance of \$10,000.00			903,580.83
TOTAL CURRENT ASSETS	\$		2,116,497.75

AFFILIATED COMPANIES

Accounts receivable			8,190.74
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INVESTMENTS AND OTHER ASSETS

Sundry investments	\$	503.00	
Employees and sundry accounts receivable		3,789.11	
Refundable income and excess profits taxes of prior years—estimated..		2,370.59	6,662.70

EQUIPMENT AND IMPROVEMENTS—Notes A and B

Furniture, fixtures, and other equipment	\$	377,503.02	
Less allowances for depreciation		218,088.77	\$ 159,414.25
Improvements to leased buildings	\$	162,095.33	
Less allowance for amortization		72,607.09	89,488.24
			248,902.49

GOOD WILL

			419,343.80
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DEFERRED CHARGES

Inventory of supplies, prepaid insurance, taxes, and expenses			56,973.42
	\$		2,856,570.90

LIABILITIES

CURRENT LIABILITIES

Notes payable to banks	\$	300,000.00	
Accounts payable for merchandise, etc.		517,899.56	
Accrued salaries, wages, taxes, etc.		63,341.49	
Federal and state taxes on income—estimated—Note C	\$	117,700.00	
Less United States tax notes purchased for payment of such taxes when due		40,348.00	77,352.00
TOTAL CURRENT LIABILITIES	\$		958,593.05

RESERVE

For contingencies			25,000.00
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DEFERRED INCOME

Unrealized gross profit and carrying charges on installment sales			86,196.04
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CAPITAL STOCK AND SURPLUS

Capital Stock:

Preferred Stock—7% cumulative—par value \$100.00 per share:

Authorized and issued—10 shares	\$	1,000.00	
Less in treasury for retirement—10 shares		1,000.00	—0—

Preferred Stock—5% cumulative—par value \$100.00

per share, redemption price \$103.00 per share:

Authorized 2,422 shares; issued 2,395 shares ..	\$	239,500.00	
Less retired 1,630 shares		163,000.00	\$ 76,500.00

Common Stock—par value \$100.00 per share:

Authorized and issued 8,000 shares		800,000.00	
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Surplus:

Capital surplus	\$	876,500.00	
Earned surplus (from February 1, 1940)—Note C		240,930.31	
		669,351.50	1,786,781.81

Long-Term Lease Commitment—Note B

\$ 2,856,570.90

NOTE A—Stated at sound values at January, 1936 determined by The American Appraisal Company, plus subsequent additions at cost, less allowances for depreciation and amortization.

NOTE B—At January 31, 1949, the Company had one lease on its principal store property for a term expiring more than three years from that date. The minimum annual rental amounts to approximately \$105,000, plus increased amounts based on percentages of sales. Under the provisions of said lease, the lessor had agreed to enter into a contract on or before February 1, 1950 for certain improvements to the leased premises against which the Company has agreed to advance an amount not in excess of \$150,000. Upon completion of the improvements by the lessor, the Company further agrees to expend not less than \$400,000 for the installation of new store fixtures and equipment and at the time of completion of such installation to have net current assets of not less than \$1,000,000.

NOTE C—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS

Cash on hand and in banks	\$ 891,233.95	
Marketable securities—at market quotations, plus accrued interest	56,878.73	
Accounts receivable, customers and miscellaneous, less allowances for doubtful accounts ..	1,873,094.07	
Merchandise inventories—priced at the lower of cost or market, based on the retail inventory method, less allowances for discount	1,788,987.24	
Merchandise in transit—at invoice cost	185,171.28	
TOTAL CURRENT ASSETS	\$ 4,795,365.27	

OTHER ASSETS

Rent deposit	\$ 10,000.00	
Sundry investments	5,177.50	
Estimated refundable portion of prior years' Federal taxes on income under carry-back provisions of Internal Revenue Code—Note B	79,000.00	
Advances to leased departments—non-current	62,207.78	156,385.28

FIXED ASSETS

Land and buildings—at cost—subject, in part, to mortgages payable—shown contra—Note A:		
Land	\$ 1,665,085.91	
Buildings	\$ 2,682,798.82	
Less: Allowances for depreciation	1,592,345.99	1,090,452.83
Fixtures, equipment and improvements of parent company at July 31, 1934, at nominal value of \$1.00, plus subsequent additions at cost	\$ 1,931,270.68	
Less: Allowances for depreciation and amortization	620,752.02	1,310,518.66
Construction in progress	38,153.75	4,104,211.15

DEFERRED CHARGES

251,909.60
<u>\$ 9,307,871.30</u>

NOTE A—The assets of the wholly-owned subsidiaries consist primarily of land and buildings, at a depreciated value of \$2,635,176.32, which are subject to mortgages aggregating \$1,661,386.38, of which installments aggregating \$30,127.59 are due within one year. The subsidiaries are the primary obligors on the bonds secured by the mortgages, and Oppenheim, Collins & Co., Inc. is not liable thereunder.

NOTE B—The corporation filed consolidated Federal tax returns for the year ended July 31, 1945. In the computation of the provision for Federal taxes on income for the year then ended, a loss of \$1,033,111.30 on the sale of real estate by a subsidiary was taken as a deduction. If it were not for this deduction, the provision for Federal taxes on income would have been approximately \$805,000.00 greater and the corporation would not have been entitled to file claims for refund of approximately \$65,000.00 applicable to the year ended July 31, 1943 under the carry-back provisions of the Internal Revenue Code. These claims have been examined by the Bureau of Internal Revenue, and based on such review, the final settlement may amount to \$62,768.26, subject to approval by the Commissioner of Internal Revenue. An additional claim for refund of approximately \$14,000.00 applicable to the year ended July 31, 1946 has been filed, based on the carry-back of a portion of the unused excess profits credit for the year ended July 31, 1947.

The accompanying consolidated balance sheet is subject to final determination of Federal, state and local taxes.

NOTE C—At January 31, 1949, the company and its wholly-owned subsidiaries had six leases (excluding inter-company leases) on real estate properties with terms expiring more than three years from that date, including a lease on the real estate sold referred to in Note B. The aggregate minimum annual rentals under such leases amounted to approximately \$333,500.00, plus, in certain instances, charges for taxes and insurance and in the case of five leases additional rentals based on a percentage of sales over a fixed amount. The company guarantees the payment by its subsidiaries of rents under three of the leases.

AND WHOLLY-OWNED SUBSIDIARIES

AS AT JANUARY 31, 1949

LIABILITIES

CURRENT LIABILITIES

Accounts payable—merchandise—net	\$	516,243.38
Accounts payable—merchandise in transit		185,171.28
Sundry accounts payable and accrued expenses		587,018.65
Mortgage installments payable within one year		30,127.59
Reserve for Federal taxes on income—Note B	\$	428,257.85
Less: United States Treasury Savings Notes, Series C—at cost, plus accrued interest		<u>10,324.00</u> 417,933.85
TOTAL CURRENT LIABILITIES	\$	<u>1,736,494.75</u>

MORTGAGES PAYABLE IN INSTALLMENTS THROUGH 1954—Note A	\$	1,661,386.38
Less: Current installments shown above		<u>30,127.59</u> 1,631,258.79
TOTAL LIABILITIES	\$	<u>3,367,753.54</u>

RESERVES

Self-insurance	\$	28,939.87
Contingencies		<u>150,000.00</u> 178,939.87

CAPITAL STOCK AND SURPLUS

Capital Stock—par value \$10.00 per share:			
Authorized and issued —220,000 shares.....	\$	2,200,000.00	
Less: Held in treasury — 20,037 shares.....		<u>200,370.00</u>	
Outstanding — <u>199,963</u> shares.....	\$	<u>1,999,630.00</u>	
Surplus:			
Initial and Capital Surplus	\$	1,655,709.36	
Earned Surplus—Note B		<u>2,105,838.53</u>	<u>3,761,547.89</u>
			<u>\$ 9,307,871.30</u>

S. D. LEIDESDORF & CO.
CERTIFIED PUBLIC ACCOUNTANTS
125 PARK AVENUE, NEW YORK
ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS
OPPENHEIM, COLLINS & Co., INC.
NEW YORK, N. Y.

We have examined the consolidated balance sheet of Oppenheim, Collins & Co., Inc. and wholly-owned subsidiaries as at January 31, 1949. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We made a review of inventory methods and procedures and had representatives present during the taking of the merchandise inventories. We made substantial tests of the quantities recorded and also test-checked prices and mathematical calculations. A test-check of accounts receivable was made by direct communication with customers.

In our opinion, the accompanying consolidated balance sheet, together with the notes to consolidated balance sheet, presents fairly the consolidated financial position of Oppenheim, Collins & Co., Inc. and wholly-owned subsidiaries at January 31, 1949, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N. Y.
April 5, 1949.

RICHARD STORE COMPANY

BALANCE SHEET

January 31, 1949

ASSETS

CURRENT ASSETS

Cash		\$	450,775.14
Accounts receivable:			
Customers, including \$90,497.83 of installment accounts	\$	277,090.21	
Suppliers		15,585.61	
	\$	<u>292,675.82</u>	
Less allowance for doubtful		12,000.00	280,675.82
Merchandise inventories:			
On hand—at lower of cost or market as determined by the retail inventory method, less allowance of \$150,000.00	\$	651,518.01	
In transit—at invoice cost		<u>117,988.94</u>	769,506.95
TOTAL CURRENT ASSETS			<u>\$ 1,500,957.91</u>

AFFILIATED COMPANIES

Accounts receivable		5,324.64
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OTHER ASSETS

Sundry accounts receivable, etc.		12,752.40
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LAND, BUILDINGS, AND EQUIPMENT—Note A

Land	\$	229,900.00	
Buildings, fixtures, and equipment	\$	1,230,506.64	
Less allowances for depreciation		<u>417,691.10</u>	<u>812,815.54</u>
			1,042,715.54

DEFERRED CHARGES

Prepaid insurance, supplies, and expense		101,929.44
		<u>\$ 2,663,679.93</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable for merchandise, etc.	\$	227,771.54
Accrued salaries, wages, taxes, etc.		38,975.46
Federal taxes on income—estimated—Note C		<u>228,142.31</u>
TOTAL CURRENT LIABILITIES	\$	<u>494,889.31</u>

DEFERRED INCOME

Unearned carrying charges on installment sales		1,809.96
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CAPITAL STOCK AND SURPLUS

Capital Stock:			
Common Stock—par value \$100.00 per share:			
Authorized and issued 10,000 shares	\$	1,000,000.00	
Surplus:			
Arising from revaluation of properties—Note A		424,448.86	
Earned surplus—Note C		<u>742,531.80</u>	2,166,980.66

Long-Term Lease Commitment—Note B

\$ 2,663,679.93

NOTE A—Land is stated as appraised as of June 27, 1939, by independent appraisers, plus a subsequent addition at cost in the amount of \$4,900.00. Buildings and equipment are stated at sound value as reported by independent appraisers as of June 15, 1939, plus subsequent additions at cost less allowance for depreciation since date of appraisal. At January 31, 1949, the unamortized appreciation amounted to \$424,448.86.

NOTE B—At January 31, 1949, the Company had one lease on real estate property for a term expiring more than three years from that date. The minimum annual rental under such lease amounts to approximately \$20,000.00 plus real estate taxes. Under provisions of said lease, the Company is required to erect within five years after the end of the war, a building on the leased land at a cost of not less than \$150,000.00. As a part of the consideration a small strip of land now owned by the Company, included in the land account at a cost of \$4,900.00 is to be deeded to the lessor of the land on which the building is to be erected. This small strip of land adjoins and become a part of the land covered by the lease.

NOTE C—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income.

WISE, SMITH & COMPANY, INCORPORATED

BALANCE SHEET

January 31, 1949

CURRENT ASSETS

ASSETS

Cash		\$ 361,690.66	
United States Government securities—at cost and accrued interest (redemption value and accrued interest—\$14,448.75)			15,093.75
Accounts receivable:			
Customers, including \$130,652.96 of installment accounts	\$ 638,475.15		
Suppliers and others	16,701.19		
	\$ 655,176.34		
Less allowance for doubtful	49,395.86		605,780.48
Merchandise inventories:			
On hand—at lower of cost or market as determined by the retail inventory method	\$ 635,874.14		
In transit—at invoice cost	44,670.67		680,544.81
TOTAL CURRENT ASSETS			\$ 1,663,109.70

INVESTMENT AND OTHER ASSETS

Mortgage receivable and accrued interest	\$ 20,245.50		
Sundry receivables	977.05		21,222.55

LAND, BUILDINGS, AND EQUIPMENT

Land—at cost	\$ 7,901.00		
Buildings, fixtures, and equipment—at cost	\$ 530,298.39		
Less allowances for depreciation	417,333.29	112,965.10	
Improvements to leased property—at cost	\$ 2,656.06		
Less allowance for amortization	32.91	2,623.15	123,489.25

DEFERRED CHARGES

Inventory of supplies, prepaid insurance, taxes, and expenses		62,903.95	
			\$ 1,870,725.45

CURRENT LIABILITIES

LIABILITIES

Note payable to bank	\$ 20,000.00		
Accounts payable for merchandise, etc., including \$941.34 to affiliated companies		325,697.18	
Accrued salaries, wages, taxes, and expenses		73,231.72	
Federal taxes on income—estimated—Note C		6,038.00	
TOTAL CURRENT LIABILITIES			\$ 424,966.90

RESERVE

For self-insurance		300.00	
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DEFERRED INCOME

Unearned carrying charges on installment sales		2,206.73	
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CAPITAL STOCK AND SURPLUS—Note A

Capital Stock:			
Preferred Stock—6% cumulative—par value \$100.00 per share; redemption price \$100.00 per share—			
Note B:			
Authorized 5,000 shares; issued 1,615 shares ..	\$ 161,500.00		
Less 17 shares in treasury	1,700.00	\$ 159,800.00	
Common Stock—par value \$100.00 per share:			
Authorized 10,000 shares; issued and outstanding 5,000 shares	500,000.00		
	\$ 659,800.00		
Earned surplus	783,451.82	1,443,251.82	

Long-Term Lease Commitments—Note A

\$ 1,870,725.45

NOTE A—At January 31, 1949, the Company had two leases on properties with terms expiring more than three years from that date. The aggregate minimum annual rentals under such leases for a number of years amount to \$168,920, plus real estate taxes, insurance covering the lessor's interests, and increased amounts based on percentage of sales in the case of the lease on principal store premises less all real estate taxes, assessments and insurance premiums paid.

Under the terms of the lease on its principal store premises, the Company is obligated to expend not less than \$500,000 for alterations, improvements, etc. (as defined) to the leased premises to commence immediately and to be completed within five years from July 1, 1948. Further, the Company covenants that during the term of the said lease, its net worth shall not be reduced below \$1,500,000 by the payment of dividends or withdrawal of capital.

NOTE B—Accumulated, undeclared, unpaid dividends on the Preferred Stock from January 1, 1948 to January 31, 1949 aggregated \$10,387.

NOTE C—This balance sheet is subject to adjustments, if any, upon final determination of liability for federal and state taxes on income.

